

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2020/2021

BAC2634 – FINANCIAL ACCOUNTING & REPORTING II

(All sections / Groups)

16 OCTOBER 2020
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 9 pages (excluding the cover) with 4 Questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

QUESTION 1

Given below are the lists of balances of the statements of profit or loss and the statement of financial position of Harimau Bhd for the year ended 31 March 2020.

Statement of Profit or Loss for the year ended 31 March 2020	
	RM
Revenue	8,382,000
Cost of sale	<u>(6,660,000)</u>
Gross profit	1,722,000
Operating expenses	<u>(750,000)</u>
Profit from operations	972,000
Investment income and fair value gain on investment	120,000
Finance cost	<u>(240,000)</u>
Profit before tax	852,000
Income tax expense	<u>(342,000)</u>
Profit for the year	<u>510,000</u>

Statement of financial position as at 31 March 2020		
	2020	2019
	RM	RM
ASSETS		
<u>Non-current assets</u>		
Property, plant and equipment	7,680,000	5,640,000
Software	810,000	-
<u>Current assets</u>		
Investments (fair value through profit or loss)	900,000	750,000
Inventory	2,880,000	3,060,000
Trade Receivable	2,100,000	2,610,000
Bank	-	<u>210,000</u>
	<u>14,370,000</u>	<u>12,270,000</u>

Continued...

EQUITY AND LIABILITIES		
Ordinary share capital (RM0.25 each)	3,900,000	2,310,000
Revaluation surplus	360,000	150,000
Retained earnings	5,700,000	5,790,000
<u>Non-current liabilities</u>		
9% Debentures	720,000	-
Provision for restoration of environment	972,000	-
Deferred tax	108,000	150,000
<u>Current liabilities</u>		
Trade and other payables	2,100,000	3,330,000
Tax payable	360,000	300,000
Bank overdraft	150,000	240,000
	<u>14,370,000</u>	<u>12,270,000</u>

Additional information:

The following supporting information is available:

1. Included in the property, plant and equipment is an oil refinery that Harimau Bhd purchased on 1 April 2019. The new refinery was expected to have a useful life of 10 years. Harimau Bhd has a well-published policy that it will reinstate any environmental damage caused by its activities. The future cost to reinstate the environment at the end of 10 years was discounted at 8% to present value of RM900,000. This cost is included in the carrying value of the property, plant and equipment, and together with the unwinding of the interest, has been treated as provision. The finance cost in the statement of profit or loss includes the unwinding of the discount.
2. During the year, the directors commissioned an independent valuation of land and the value of land was increased by RM210,000.
3. There was no disposal of property, plant and equipment during the year.
4. The depreciation charged for the year was RM1,530,000.
5. The software was purchased during the year for RM1,080,000.
6. The fair value of the investments had increased during the year by RM90,000. There was no disposal of investment made during the year.
7. A rights issue was made on 1 December 2019.
8. Dividend was paid during the year.

Continued...

Required:

Prepare the statement of cash flows using the indirect method for Harimau Bhd for the year ended 31 March 2020 in accordance with MFRS 107 *Statement of Cash Flow*.

(18 marks)

(Total: 18 marks)

QUESTION 2**PART A**

Jigjaz Berhad borrowed RM 12 million on 1 January 2017 with the purpose to finance the construction work of a machinery, qualifying asset. It is expected that the construction of machinery will take three years to complete, commencing from 1 January 2017.

The total expenditure incurred per year were as follows:

Date	RM
1 January 2017	6,000,000
1 April 2018	4,000,000
1 July 2019	2,000,000

Interest on the loan was 5% per annum. The company invested the unutilised fund for a return of 3% per annum.

Required:

Compute the borrowing cost eligible for capitalisation and the cost of the machinery for the years ended 31 December 2017, 31 December 2018 and 31 December 2019.

(8 marks)

Continued...

PART B

Viga Berhad purchase a property on 1 January 2016 for investment purpose. The property comprised of a freehold land and a 20-storey building for RM 70 million. At the date of purchase, the cost of the land was RM 20 million and the estimated useful life of the building was 20 years. It is the policy of the company to depreciate its assets using straight line method. The company adopts fair value model to measure its investment properties.

The following transactions took place:

Date	Details
1 January 2016	Renovation cost was RM 10 million.
30 June 2016	The renovation was completed.
1 July 2016	Due to the change in administration, 4 stories of the building were used for corporate warehouse while the rest were rented out to retailers.
1 January 2017	The land and buildings were revalued to RM 22 million and RM 58 million respectively.
1 January 2019	The retailers terminated the rental contract. Viga Berhad rented out the 16 stories of the building to its subsidiary. The fair value of the land and building were RM 23 million and RM 70 million respectively.

Required:

Prepare the relevant journal entries of the land and building from year 2016 to 2019 in the account of Viga Berhad and its group.

(7 marks)

Continued...

Part C

Active Mode Berhad reports the following intangible assets as at 31 December 2019:

	RM (million)
Patent(at Directors' valuation)	320
Less Accum. Amortisation	(80)
	<u>240</u>
Trademarks (at cost)	30
Goodwill (at cost)	100
Less Accum. Amortisation	(20)
	<u>80</u>
Brand name	200
Licence (at cost)	20
Less Accum. Amortisation	(2)
	<u>18</u>

Additional information:

- Patent was acquired at cost of RM 160 million four years ago and was revalued. The estimated useful life at the point of acquisition was 16 years.
- The trademark can be renewed indefinitely, subject to continued use. The cost consisted of registration fees which were expensed of earlier. However, after the trademark had started to become recognized by customers, it was then recognized as an intangible asset.
- Goodwill is generated internally. It is amortised on a straight-line basis.
- The brand name is internally generated and measured at fair value.
- The license was acquired one year ago. The expected useful life at the point of acquisition was 10 years. The license can be traded freely in the active market and has a fair value of RM 20 million.

Required:

- Illustrate how each of the intangible assets listed above shall be treated in accordance with MFRS 138 Intangibles assets. (3 marks)
- Compute the carrying amount as at 31 December 2019 for each classes of intangible assets, (5 marks)

Continued...

PART D

- a. WiCo Berhad specialised in home furniture. During the year 2019, the company sells a set of sofa to customer for a price of RM 15,800. The cost of the sofa was RM 9,500. Wico Berhad offers a favourable term to the customers that the sofa could be return to Wico Berhad within 90 days if the customer is not satisfied with product.

Illustrate how the company should account for the contract with the customer. Show relevant journal entries. (4 marks)

- b. Medic Tech Berhad, a pharmaceutical company entered into a contract with its customer to licences its patent rights of one of the drug to one of its customers. Medic will manufacture the drug for the customers for 15 years. Medic Tech Berhad does not need to perform any research activity to support the drug as it is a mature product. This practice is consistent with its customary business practices.

Illustrate the performance obligations in Medic Tech Berhad's contract with its customer under the two following conditions.

- i) Medic Tech Berhad is the only company that can manufacture this drug because of the highly specialised nature of the manufacturing process. (2 marks)
- ii) All the other companies can manufacture the drug as the manufacturing process used to produce the drug is not unique or specialised. (3 marks)
- c. Bres Berhad closes its account on 31 December every year. On 1 January 2019, it enters into a contract with customers for the sale of a product. The product was sold for a consideration of RM 250 for one-year period. The contract is negotiated in the way that if the customers purchase more than 800 units, the total consideration will be RM 220 per units (applied retrospectively).

When the contract was entered, Bres Berhad did not think that the 800 units' target will be achieved by the customers. The customer purchasing pattern is as follows:

1 January 2019	100 units
13 February 2019	130 units
25 March 2019	210 unit
20 May 2019	150 units

Inferring from the last purchasing transaction by the customer, it is expected that the 800 units' target might be met by the customers.

In accordance with MFRS 15 Revenue from Contracts with Customers, compute the amount of revenue to be recognised for each month.

(5 marks)

(Total: 37 marks)

Continued...

QUESTION 3**PART A**

The whole world was facing an epidemic, COVID-19 in the year 2020. On March 15, the Malaysian government announced a special grant to purchase equipment for those who are willing to manufacture a special suits for the frontliners fighting the disease. YY Sdn Bhd applied for the grant and received the approval for RM30,000 to purchase the equipment on 20 March 2020. The equipment cost RM70,000 and YY began manufacturing the suits beginning 1 April 2020. The grant was received on 15 April 2020. The equipment was expected to have a useful life of 3 years with a scrap value of RM10,000. YY uses the writeoff against asset method.

YY's year end is 30 June. They depreciate their equipment on a straight line basis.

Required:

Prepare the journal entries to record the purchase of the equipment, the grant and the depreciation for the year ended 30 June 2020. (6 marks)

PART B

Dermaga Bhd is a luxury resort in Langkawi and leased a bayside plot of land to build a wharf for yachts belonging to its customers. The lease was for 20 years beginning the year 2001. Dermaga did an extensive development of the wharf and expected it to have a useful life of 40 years at a cost of RM10 million. They were fully expecting to have their lease renewed for another 20 years. The wharf was depreciated on a straightline basis with zero residual value. Dermaga's financial year end is on 31 December.

Unfortunately, they have just received news that the district office will only renew their lease for another 2 years and they were told that the lease will not be renewed any further as the government wishes to takeover the wharf as a public facility. They will be compensated with RM2 million for all buildings as well as any fixtures and fittings at the end of 2022.

Required:

Illustrate the accounting treatment for the year ending 31 December 2020.. (9 marks)

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PART C

Attar Sdn Bhd planted 20 five year old jackfruit trees in Batu Pahat, Johor in the year 1998. Jackfruit trees can normally live up to 60 years and even to 100 years. They normally start producing fruit after 14 years. Attar began to harvest fruits in 2007. Each year the trees normally produce up to 20 tons of fruits. (1 tonne = 1000 kg). Peak harvest periods for jackfruits are from April to August or September to December in Malaysia.

Attar's financial year end is on 30 June. On 30 June 2020, it was estimated that there is 150 kg of fruit that has been harvested. In June 2019, the average price was RM2.50 per kg for the farm price. In June 2020, the price dropped to RM2.00 due to the falling demand caused by the COVID-19 outbreak. The market value of the land with the trees were RM2m. A nearby piece of similar sized empty property was recently sold for RM1.5 m.

Required:

Illustrate the accounting treatment for the land, trees and fruits for the year ending June 2020. (10 marks)

(Total: 25 marks)

QUESTION 4 (20 marks)

The financial statements of Henna Bhd appear below:

HENNA BHD Statement of Financial Position for year ended December 31

<u>Assets</u>	2019	2018
Cash	RM25,000	RM30,000
Short-term investments	20,000	60,000
Accounts receivable (net)	50,000	40,000
Inventory	60,000	70,000
Property, plant and equipment (net)	260,000	300,000
Total assets	RM415,000	RM500,000
<u>Liabilities and stockholders' equity</u>		
Accounts payable	RM20,000	RM30,000
Short-term notes payable	55,000	80,000
Bonds payable	80,000	150,000
Common stock	150,000	150,000
Retained earnings	110,000	90,000
Total liabilities and stockholders' equity	RM415,000	RM500,000

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Statement of Profit or Loss
For the Year Ended December 31, 2019

Net sales	RM400,000
Cost of goods sold	<u>250,000</u>
Gross profit	150,000
Operating expenses	<u>RM42,000</u>
Income before interest and taxes	RM108,000
Interest expense	<u>18,000</u>
Income before income taxes	90,000
Income tax expense	<u>27,000</u>
Net income	<u>RM63,000</u>

Additional information

- a. Weighted-average number of shares of common stock outstanding during 2019 was 30,000 shares.
- b. Market value of common stock on December 31, 2019, was RM21 per share.

Required

Using the financial statements and additional information, compute the following ratios for Henna Bhd for 2019.

- a) Current ratio
- b) Return on Stockholders Equity
- c) Return on Asset
- d) Profit margin
- e) Account Receivables Turnover
- f) Inventory Turnover in Days
- g) Price-Earnings Ratio

Evaluate the financial performance and position of Henna Bhd.

(20 mark)

End of paper.